

VZCZCXRO1802
OO RUEHLH RUEHPW
DE RUEHKP #0061/01 0560927
ZNY CCCCC ZZH
O 250927Z FEB 09
FM AMCONSUL KARACHI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0930
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 0048
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 0391
RUEHBUL/AMEMBASSY KABUL PRIORITY 0221
RUEHLO/AMEMBASSY LONDON PRIORITY 0264
RUEHML/AMEMBASSY MANILA PRIORITY 0064
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 1808
RUEHUL/AMEMBASSY SEOUL PRIORITY 0016
RUEHLH/AMCONSUL LAHORE PRIORITY 2658
RUEHPW/AMCONSUL PESHAWAR PRIORITY 4541
RUEAIIA/CIA WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY
RHMFISS/JOINT STAFF WASHINGTON DC PRIORITY
RHEHAAA/NSC WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 KARACHI 000061

SIPDIS

E.O. 12958: DECL: 02/25/2019
TAGS: [ENGR](#) [EINV](#) [EFIN](#) [ECON](#) [PREL](#) [PK](#)
SUBJECT: SINDH - WILL THAR COAL FINALLY MATERIALIZE?

REF: A. KARACHI 32
[1](#)B. KARACHI 20

Classified By: Classified by Consul General Stephen Fakan for reasons 1
.4 (b) and (d).

This is a joint Karachi-Islamabad report.

[1](#)1. (C) In a series of meetings in February, Embassy and Consulate EconOffs have heard Thar coal development described in both hopeful and skeptical terms. Sindh officials claim confidently that Pakistan is "three years away" from mining operations in Thar, adding that China and South Korea both have expressed interest -- although President Zardari's recent trip to China does not appear to have resulted in any concrete projects on Thar. However, both a prominent Karachi energy investor and the GOP point man at the Private Power and Infrastructure Board (PPIB) harbor doubts that plans for Thar will bear fruit soon -- despite the area's vast potential -- due to opposition from oil interests, internal politics and bureaucratic hurdles. Pakistanis at both the provincial and national level are pinning their hopes on a World Bank visit in March, during which they hope to finalize a Memorandum of Understanding (MOU) for technical and financial assistance that can cut through Pakistani bickering. Officials at both levels also agree that help from the U.S. Geological Service (USGS) in developing a mineral map for the region would be of enormous benefit. End summary.

Just One More Study Away?

[1](#)2. (SBU) On February 13, Sindh Secretary for Mines and Minerals Younus Dagha gave EconOff an overview of Sindh's plans to develop the Thar coal resources. Dagha presented an optimistic timeline of 6-12 months for additional studies, followed by one to two years to dig the first open pit mine, making three years before actual coal mining could commence.

[1](#)3. (C) In a February 20 meeting with Islamabad EconOff, Asif Ali Abro (please protect), point man on Thar coal at the Private Power and Infrastructure Board (PPIB), stressed that a hydrological study (currently lacking) was particularly important because all three aquifers in the area are highly

pressurized -- once tapped, experts fear they will burst, with unknown ecological costs. Thar coal's exceptionally high water content makes it 50 percent heavier and thus more expensive to transport (Ref B). This, Abro maintained, makes it essential to bring the power plant to the coal, instead of vice versa, as some developers have suggested. Depending on the results of the hydrological study, water essential to run the plant may or may not be readily available.

14. (C) Abro concurred with other assessments that high shipping costs make Thar coal unattractive for export, adding that technology to dry the coal was impractical. Without a domestic client (read: power plant), Abro concluded that Thar coal - despite its abundance - was prohibitively expensive to develop. Dagha pointed out that any electricity generated will then have to travel 100 kilometers to reach the national power grid. He said each company will need to invest at least \$2 billion to conduct mining operations and described the project "as too big a venture for a single firm to handle."

World Bank Stepping Up?

15. (C) A World Bank delegation plans to accompany German Consulate officials on a visit of the area in March to examine the site. Dagha said Pakistan might then also sign an MOU with the Bank that would, as part of a larger package, provide technical assistance for developing Block One. Abro

KARACHI 00000061 002 OF 003

also spoke of the upcoming Bank visit in hopeful but cautious terms. Bank officials, he asserted, placed too much faith in the as yet non-functional Thar Coal and Energy Board (TCEB). Established nine months ago to bridge the constitutional divide on coal (Note: The Constitution awards provinces the authority to develop mineral resources, while the national government controls power generation over 50 MW. End note.) TCEB's budget, although allocated, has not yet been issued. Without funds, TCEB is still unable to hire experts, establish offices, and essentially has only one full-time staff member who works out of his home, instead of the joint provincial-national staffing its mandate requires.

16. (C) Abro described TCEB's creation as an "understandable response" to the Constitutional contradiction that has made developing Thar so challenging, but said that its creation failed to get at the real problem: mistrust between provincial and national authorities. Abro noted that he had told Bank officials about his concern over their intention to create project management units attached to TCEB, but still reporting separately to the national-level Ministries and the Sindh authorities: "This will only make things more complicated and confused for investors." Abro said investors want simple structures with clear lines of authority.

17. (SBU) In addition to a comprehensive study of Thar, Abro maintained that Pakistan had an even greater need that he intended to urge the Bank to address: while Pakistan has a national policy for power generation projects, Abro said that policy document is silent on coal. Without such guidance, neither PPPIB nor any other body is in a position to provide assurance to investors as to the rules of the game in Pakistan. Technical assistance from the Bank to develop that policy, above what they may provide to strengthen TCEB and examine Thar, is a must, according to Abro.

Other Assistance

18. (SBU) Dagha asked for help from the U.S. Geological Survey (USGS) to develop a geological map of the coal deposits and to determine if coal bed methane is present in the Thar coal seams. Abro also expressed interest in possible USGS mapping

assistance, and joined our lament that, thus far, Pakistani security concerns have precluded the GOP accepting USGS assistance that has been on offer for years.

Foreign Interest...

¶9. (SBU) China is reportedly interested in developing the 55 km Block Two and the China National Machinery Company has also expressed interest in building an electrical power plant in Thar (Ref A). Despite expectations that President Zardari would discuss investment in Thar during his recent visit to China, no MOU appears to have resulted.

¶10. (SBU) According to Dagha, South Korea's state-owned KEPCO would also like to invest in Thar coal development, and has reportedly even made inquiries about purchasing some of the coal. Dagha also reported that ENGRO, a chemical and energy firm formerly owned by Exxon, is also interested in Thar coalfield investments.

...But Domestic Business Has Doubts

¶11. (SBU) Farooq Hassan, a large shareholder in the Karachi Electric Supply Company (KESC) and a partner in the successful Uch Power Plant, told EconOff that he believes Thar coal is the immediate solution to Pakistan's energy shortage. However, Hassan said that although (by his estimate) seven trillion dollars worth of coal awaits mining

KARACHI 00000061 003 OF 003

in Thar, he did not believe that the GOP is serious about its plans to develop the coal fields. He accused Pakistan's oil industry, particularly the Pakistan State Oil Company, of blocking coal-based energy development plans. Hassan said his past attempts to develop energy resources have been frustrated by the country's internal politics and "mindboggling" bureaucratic obstacles. (Note: Hassan holds exploration rights to a 64 square kilometer portion of the Thar coalfield. End Note.)

Comment

¶12. (C) The development of Thar coal has been "imminent" and "essential" for years. Follow-through has been lacking because of federal-provincial jurisdictional squabbles and prohibitive development costs. The arrival of TCEB on the scene can be interpreted as a positive step; but unless the GOP follows through to get the office up and running -- and working cooperatively with Sindh authorities -- we doubt that TCEB alone can exert sufficient leadership to cut through the bickering bureaucracies.

¶13. (C) We hope the World Bank can capitalize on the fact that the GOP may still be smarting from public anger over widespread power shortages in the fall and winter (and expected again this summer) to compensate for lower world petroleum prices that could easily reduce GOP incentive to get serious about Thar. A World Bank acting as "honest broker" between national and provincial officials could be a catalyst to break this longstanding logjam.

FAKAN